OFFICE OF THE TAX COMMISSIONER
GENTAX

INFORMATION SYSTEM AUDIT
For the Fiscal Year ended June 30, 2007

Project Code SAI127-07

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TRANSMITTAL LETTER

September 30, 2007

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Cory Fong, Tax Commissioner, Office of State Tax Commissioner

Transmitted herewith is the information system audit of GenTax for the fiscal year ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor under NDCC § 54-10-01.

GenTax is an integrated tax processing software package. GenTax is designed to support almost all aspects of tax collection.

GenTax was selected for this audit because it is considered a high-risk information system. GenTax is considered a "high-risk" information system because it is a new system and is the primary system used by the Office of State Tax Commissioner for tax collection. The term "high-risk" does not indicate that the system has problems, but indicates a higher potential for significant problems to occur.

Inquiries or comments relating to this audit may be directed to Donald LaFleur, Information Systems Audit Manager, by calling (701) 328-4744. We wish to express our appreciation to the Office of State Tax Commissioner for the courtesy, cooperation, and assistance provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

EXECUTIVE SUMMARY

GenTax is an integrated tax processing software package. GenTax is designed to support almost all aspects of tax collection.

The Office of State Tax Commissioner implemented GenTax in a series of rollouts beginning in January 2006 and ending in June, 2007.

The implementation of the System is complete and the System appears to be delivering the intended results.

Audit Objectives and Significant Findings

We reviewed **security** policies and procedures to ensure they were proper, access roles to ensure they had been properly designed and superuser accounts to determine if they were necessary. We had the following finding:

➢ individuals with access to add or authorize refunds had the ability to update direct deposit information for taxpayers.

We reviewed the **reconciliation** of GenTax to the state accounting system.

We reviewed the **conversion** of the legacy system data to GenTax.

We reviewed procedures for **refunds**.

BACKGROUND INFORMATION

System Overview

The Office of State Tax Commissioner is the primary revenue collecting agency for the State of North Dakota, administering 35 different tax types and collecting nearly $2 billion a biennium. This was being done using multiple mainframe and desktop applications.

The Tax Department acquired and implemented a commercial off-the-shelf integrated tax system named GenTax from FAST Enterprises. With this package, the basic architecture and programming are already complete. The Tax Commissioner was able to deploy the system rapidly. Both during and after implementation, changes can be made on the fly, since the business rules are maintained in reference tables, not embedded in "hard" code.

GenTax was a multi-phased, 2-year project that converted most of the Tax Department's myriad of well-worn computerized tax processing systems to a modern integrated tax system, one more capable of quickly adapting to the State's ever-changing tax laws and regulations. The Integrated Tax System project replaced the legacy tax systems that was designed over 40 years ago and was rooted in old technology with a modernized system designed to use newer, less costly technology.

The scope of the GenTax project includes the migration of all taxes and related functions currently processed in the mainframe environment. This includes the base functionality of an integrated tax system and, the following tax types:

- Individual Income Tax
- Employer Income Tax Withholding
- Corporate Income Tax, including Fiduciary Income, Partnerships and Small Business Corporation returns
- Sales and Use Tax, including the ability to allocate ND Hotel/Motel tax and local option taxes filed on the same return
- City Lodging Tax and City Restaurant & Lodging Tax, filed on the same return
- Motor Fuel Tax
- Motor Fuel Refunds
- Estate Tax
- Telecommunications Tax
- Airline Tax

Financial Summary

Indicated below is a summary of tax revenue processed through GenTax for the fiscal year ended June 30, 2007.

GENTAX REVENUES	
	FY 2007
Income Taxes	$ 515,583,330
General Sales and Use Tax	489,519,094
Natural Resource Taxes	229,091,975
Selective Sales and Use Tax	173,046,115
Business Taxes	14,680,883
Loan Related Revenues	4,902,521
Other Taxes	700,000
Licenses, Permits, & Fees	31,000
Estate Gift Tax	27,801
Total	1,427,582,719

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this audit of GenTax for the fiscal year ended June 30, 2007 was to answer the following questions:

1. Are security policies and procedures following best practices and are access roles properly designed?
2. Does GenTax reconcile to the state accounting system?
3. Was conversion from the legacy systems completed properly?
4. Are refunds properly authorized and recorded?

This audit was conducted in accordance with *Standards for Information Systems Auditing* issued by the Information Systems Audit and Control Association and *Government Auditing Standards* issued by the Comptroller General of the United States.

ARE SECURITY POLICIES AND PROCEDURES FOLLOWING BEST PRACTICES AND ARE ACCESS ROLES PROPERLY DESIGNED?

Summary of Audit Work Performed

We reviewed the infrastructure GenTax is processed in to ensure it is secure. We reviewed procedures for requesting, establishing, issuing, suspending, modifying and closing user accounts. We reviewed security roles to ensure they were set up properly. We reviewed superuser (accounts with access to all or nearly all application functions or that have the ability to modify security) accounts to ensure they were needed.

GenTax is processed on servers operated by the Information Technology Department. The Tax Department has set up a number of security roles to control user access to the system.

Audit Findings

During the audit period, individuals with access to add or authorize refunds had the ability to update direct deposit information for taxpayers. This created a potential for misappropriation of funds, as a person could add or authorize a refund and change where the refund would be deposited. Proper segregation of duties should preclude individuals working with refunds from updating direct deposit information. No recommendation is made in this report as the Tax Department removed the ability to update direct deposit information from the refund roles during our audit.

Auditor's Opinion

In our opinion, security policies and procedures are adequate and security roles are suitably designed.

DOES GENTAX RECONCILE TO THE STATE ACCOUNTING SYSTEM?

Summary of Audit Work Performed

We reviewed the process for recording activity from GenTax onto the state accounting system. We also reviewed the Tax Department's procedures for reconciling data from the state accounting system to GenTax.

Checks received by the Tax Department are first entered into their Validation system and are summarized by tax type This summary information is the electronically integrate into the Great Plains accounting system. The tax return and payment data are entered into and processed by GenTax. Entries into the state accounting system are prepared primarily from the Great Plains accounting system with GenTax providing some of the revenue allocations data. The Tax Department reconciles data from the resources available to ensure everything is processed and recorded properly.

Auditor's Opinion

In our opinion, GenTax and supporting systems do reconcile to the state accounting system.

WAS CONVERSION FROM THE LEGACY SYSTEMS COMPLETED PROPERLY?

Summary of Audit Work Performed

We reviewed the Office of the Tax Commissioner's procedures for converting data from the legacy systems to GenTax.

The major conversion steps where:
- Reconciling legacy application data to data extracted for conversion.
- Reconciling extracted data to the GenTax conversion staging tables.
- Reconciling post conversion data in GenTax to legacy application data, extraction control reports and the conversion staging tables.

Reconciliation is performed at the taxpayer level, account level, and account period level.

After reviewing the reconciliations we compared data we extracted from GenTax to the reconciliations to ensure everything was included.

Auditor's Opinion

In our opinion, legacy system data was properly converted into GenTax.

ARE REFUNDS PROPERLY AUTHORIZED AND RECORDED?

Summary of Audit Work Performed

We reviewed the process for producing, authorizing and paying refunds to taxpayers. Refunds are generated when there is an overpayment of taxes. Authorization rules differ based on the tax type but the dollar amount of the refund usually determines if authorization is needed and who needs to authorize it. Refunds are passed from GenTax to the state accounting system for payment.

We tested that roles are designed and assigned such that no one person can both add refunds and authorize refunds.

Auditor's Opinion

In our opinion, refunds are properly authorized and recorded.